

## Between the lines

### Week 18



Until last week, equity income funds that failed to deliver at least 90% of their benchmark yield on an annual basis were dropped from their respective sectors, but the IA has now suspended this requirement for 12 months and suspended the three-year test pending review later in the year.

As Quilter Investors portfolio manager Helen Bradshaw observes, "This looks like an eminently sensible decision by the Investment Association which will undoubtedly come as some relief to equity income fund managers.

"The suspension removes the risk that managers are forced to 'chase yield'.

"This could lead to excessive risks being taken in less appropriate areas of the market or a mass migration to the rapidly shrinking number of companies still able to maintain their dividends.

"Both outcomes would be detrimental to investors," she says, "and this way the IA has enabled long-term investors to continue comparing funds on a like-for-like basis."

### Investment Association suspends yield requirements for income funds

*Following an almost 50% cut in predicted UK dividends for 2020, the Investment Association (IA) has announced the relaxation of the yield rules for the 87 funds in its UK Equity Income sector and the 57 funds that constitute the IA Global Equity Income sector.*

According to recent research from Link, by 8 April some 45% of British companies had already scrapped their dividends

with the total annual payout expected to more than halve in 2020 to around £46.5bn after topping £100bn last year.

The sea change has had an immediate impact on equity income funds, many of which will now struggle to beat the yield on the FTSE All-Share index (or the MSCI World index in the case of global equity income funds) over rolling three-year periods.

### Bayer beats expectations

*German healthcare and chemical giant Bayer recorded a 20% increase in net income to €1.5bn and a 10% increase in adjusted earnings before interest, taxes, depreciation and amortisation (EBITDA) for the first quarter, beating analyst expectations and pushing the share price higher.*



Credit: Thomas Quack/Shutterstock

Bayer, which has struggled with US lawsuits involving 52,500 plaintiffs over claims its *Roundup* products caused cancer, said the coronavirus outbreak had slowed progress in the mediation process. But it added it would only consider a solution if it was "financially reasonable and puts in place a mechanism to resolve potential future claims efficiently", suggesting it is taking a tougher stance.

The quarterly results were boosted by a 13.5% rise in consumer health sales, due to an increase in demand caused by the pandemic. However, it acknowledged the coronavirus would continue to have an impact on the business and that it would not be possible to reliably assess the overall effects until later in the year.

### The Quilter Market Explainer

*In response to the severe market volatility that has accompanied the outbreak of the global coronavirus pandemic, Quilter has launched the Quilter Market Explainer, a special weekly webcast for advisers and clients.*

All our previous broadcasts in this series are available on demand, please click on the play button above.

Today's *Explainer* aired at midday and featured Stuart Clark from Quilter Investors alongside David Miller of Quilter Cheviot and Nick Payne from Merian Global Investors, discussing how the coronavirus pandemic is affecting emerging markets from an investment perspective and whether opportunities remain in some of the potentially faster growing economies of the world.

[Click here to listen to the recording.](#)

These webcasts now run at midday every Friday throughout the virus lockdown period. See your inbox for details of how to sign up or follow us on our social media channels.





Credit: VanderWolf-Images/Stock

## Aerospace industry faces its “gravest crisis”

Airbus reported a 49% fall in first quarter core profit (adjusted earnings before taxes and interest) on Wednesday (29 Apr) as it warned the coronavirus was the “gravest crisis the aerospace industry has ever known”.

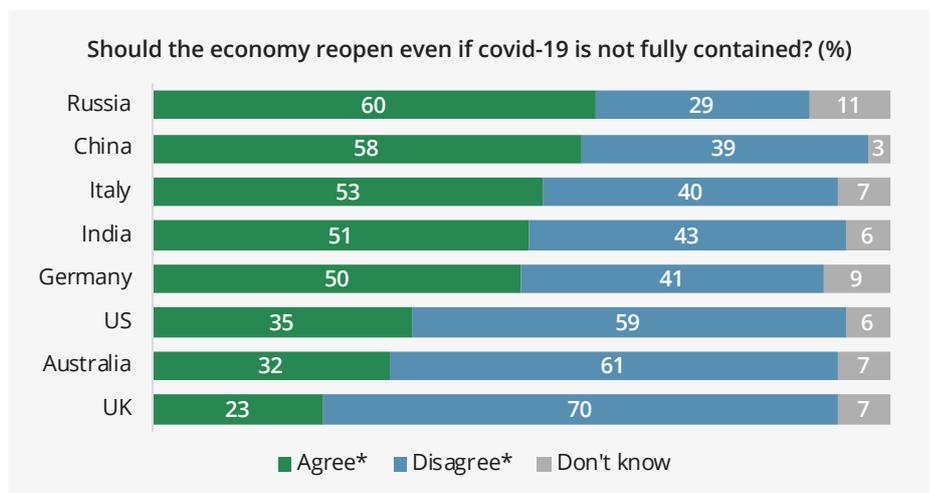
On Monday (27 Apr) Airbus warned it was “bleeding cash” and announced it would be furloughing more than 3,000 staff from its site in North Wales. In its results statement, Airbus revealed core profit fell to €281m compared with €549m in the first quarter of 2019 as new orders fell and production was cut by a third.

Airbus called for the industry to work together to restore confidence in air travel, as airline results have also suffered.

British Airways was the latest to reveal a “restructuring and redundancy” programme, with plans to cut 12,000 jobs, as parent company IAG warned it may take several years for air travel to return to pre-coronavirus levels.

## Chart of the week

**Open to opinion:** How the residents of different countries feel about a potential return to normalcy says a lot about how their governments have responded to the crisis so far.



Source: Ipsos/Statista. \*Somewhat/strongly Survey of 28,000 adults in 14 countries, April 16-19 2020

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Helen Bradshaw, portfolio manager, Quilter Investors.



## Keep your head: the seven golden rules of investing

In March, stock markets suffered their two biggest one-day drops since the ‘Black Monday’ crash in 1987. Two weeks later, the US Dow Jones index saw its biggest one-day gain since the Great Depression in 1933.

This underlines what long-term investors already know; namely, that markets invariably recover from short-term disruptions and reward those who can ride out the bumps along the way.

Our top seven principles for keeping your head when all about you are losing theirs:  
**1** Get advice; **2** Make an investment plan and stick to it; **3** Invest as soon as possible; **4** Don't just invest in cash; **5** Diversify your investments; **6** Invest for the long term; **7** Stay invested.

**Remember:** Investing with a long-term outlook and with long-term goals is the best way to reduce the impact of stock market fluctuations and to see out periods of volatility.

## *Important information*

***Past performance is not a guide to future performance and may not be repeated. The value of investments and the income from them may go down as well as up and investors may not get back any of the amount originally invested. Because of this, an investor is not certain to make a profit on an investment and may lose money. The performance data do not take account of the commissions and costs incurred on the issue and redemption of shares. Exchange rate changes may cause the value of overseas investments to rise or fall.***

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*QIL-154-20/220-0180/SK18218*